

FannieMae

No. 95-10

Announcement

Reference

- Selling
- Servicing

This announcement amends the guide(s) indicated. Please keep it for reference until we issue a formal change.

Subject **Changes to Our Flood Insurance Requirements**

The National Flood Insurance Reform Act of 1994 (the Flood Act), which amends the National Flood Insurance Program, includes several key provisions that affect mortgage lenders and servicers. Among other things, the statute

- authorizes lenders to require flood insurance even if a property's improvements are not designated or determined to be in a Special Flood Hazard Area until after the mortgage is originated;
- allows lenders to charge borrowers reasonable fees for determining the applicability of requiring flood insurance coverage (either at the time a mortgage is originated or later following a subsequent remapping of a locality);
- increases the maximum amount of flood insurance coverage that is available under the National Flood Insurance Program;
- increases lenders' duties related to compliance with the requirements of the National Flood Insurance Program (and imposes civil monetary penalties for the failure to comply); and
- requires the Federal Emergency Management Agency (FEMA) to develop and mandate the use of a standard form to document the flood zone status of a property. (Once FEMA makes this form available, it must be used for all properties that secure mortgages delivered to Fannie Mae.)

Although not all of the provisions imposed by the Flood Act will result to changes in our policy, we expect servicers to nevertheless fully comply with all aspects of the Act. The remainder of this Announcement discusses the specific changes to our mortgage eligibility and loan servicing policies that are required to assure compliance with the Flood Act, as well as other changes that we are making to update our requirements. Unless we

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specify otherwise for a particular change, these changes are effective immediately.

Flood Insurance Requirements Related to Mortgage Deliveries

Part IV, Section 107, of the Selling Guide states that we "require flood insurance for any property located in a Special Flood Hazard Area that has federally mandated flood insurance purchase requirements." It goes on to list the Flood Insurance Rate Map symbols that are used to identify Special Flood Hazard Areas, to explain how the required coverage is calculated, and to discuss the limited circumstances under which flood insurance is not required.

The requirements of Part IV, Section 107, of the Selling Guide that are specifically affected by the provisions of the Flood Act (or that are otherwise being revised) are as follows:

- Special Flood Hazard Areas that now have federally mandated flood insurance purchase requirements include those identified by the following symbols on Flood Insurance Rate Maps -- A, AE, AH, AO, AR, AI-30, A-99, V, VE, VI-30, and VO.
- The Flood Act increased the maximum "per dwelling" coverage available under the National Flood Insurance Program to \$250,000 per dwelling (and to \$100,000 for contents coverage). Our method of calculating the required coverage has not changed as a result of the Flood Act; however, lenders should make sure that any mortgages they deliver to us have adequate flood insurance coverage based on the new maximum coverage limits.
- The National Flood Insurance Program provides coverage for the buildings, dwellings, structures, or improvements that are situated on a property. We previously specified that we would waive our flood insurance requirements if the property improvements were not in the Special Flood Hazard Area, even though part of the property might be. The location of the principal structure is of most importance in terms of determining whether flood insurance is required. Flood insurance is required if any part of the principal structure is located within a Special Flood Hazard Area. Detached buildings -- such as stand-alone garages, sheds, or greenhouses -- are not considered part of the principal structure, although flood insurance may be required for them if they also serve as part of the security for the mortgage.

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If the principal structure on a property is not located in a Special Flood Hazard Area, flood insurance generally will not be required even if another detached structure is located within the Special Flood Hazard Area. However, if the detached structure is attached to the land and serves as part of the security for the mortgage, flood insurance will be required for the detached structure (and may be purchased through a separate policy on a general property insurance form). (This is not necessary if the lender determines that the principal structure represents sufficient security for the mortgage and releases the detached dwelling from the security.)

Although we do not require flood insurance for buildings that are not the principal structure (unless they are part of the security for the mortgage), borrowers may want to obtain flood insurance coverage for these buildings. Most standard flood insurance policies cover only specific structures or buildings. In order to protect detached buildings that are not the principal structure from damage against floods, a borrower may need to obtain one flood insurance policy for the principal structure and separate policies for the other detached buildings on the property.

- FEMA designates communities as either "participating" or "non-participating" in the National Flood Insurance Program. Under the National Flood Insurance Program, flood insurance is not available for properties that are located in "non-participating" communities. Previously, we specified that we would not buy mortgages secured by properties located in Special Flood Hazard Areas if the community was not participating in the National Flood Insurance Program, although we waived our flood insurance requirement if the mortgage was closed within one year after the area was classified as a Special Flood Hazard Area. Effective immediately, mortgages secured by properties located in "non-participating" communities cannot be sold to us if the property is located in a Special Flood Hazard Area (regardless of when the property was classified as being in a Special Flood Hazard Area). To assure that such mortgages are not delivered to us for purchase or securitization, lenders must monitor -- on an on-going basis -- changes in a community's status under the National Flood Insurance Program.

Part V, Sections 111 and 214, of the Selling Guide require that first mortgages "provide for the monthly deposit of escrow funds to pay as

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they come due taxes, ground rents, premiums for borrower-purchased mortgages insurance (if applicable), and premiums for hazard insurance." Conditions under which the escrow deposit account may be waived are also discussed. In any instance in which a lender maintains an escrow deposit account for such items, it must also deposit funds for the payment of flood insurance renewal premiums into that account.

Part VIII, Section 702, of the Selling Guide states our requirements for PUD, condominium, and cooperative projects. To reflect recent changes to the National Flood Insurance Program, our requirements related to condominium or cooperative projects that consist of high-rise or other vertical buildings are being modified as follows:

- When a condominium project consists of high-rise or other vertical buildings, we generally do not require separate flood insurance policies for the individual units. Instead, we require the owners' association to obtain a Residential Condominium Building Association Policy for each building that is located in a Special Flood Hazard Area. This policy must provide coverage for all of the common elements and property, as well as for each of the individual units in the building. The amount of required coverage consists of three components -- (1) building coverage should equal 100% of the insurable value of the common elements and property (including machinery and equipment that are part of the building), (2) the contents coverage should equal 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members, and (3) the coverage for each unit should be the lesser of \$250,000 or the amount of its replacement cost. (If the total amount of required coverage exceeds the maximum available for condominium projects under the applicable National Flood Insurance Program, we will accept coverage that is equal to the maximum available amount. Note, however, that the 80% coinsurance clause may apply unless the elements, property, and units are insured for at least 80% of their replacement cost. When an owners' association refuses to obtain a Residential Condominium Building Association Policy, a separate policy must be obtained for each dwelling unit that secures a mortgage delivered to us.
- When a cooperative project consists of high-rise or other vertical buildings, we impose no special coverage requirements. For all cooperative projects that have buildings located in a Special

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Flood Hazard Area, we require the cooperative corporation to obtain a separate flood insurance policy for each building that is located in the Special Flood Hazard Area. The policy must cover the building and any common elements and property (including machinery and equipment) that are owned in common by the shareholders of the cooperative project. (We do not require flood insurance coverage for the individual units.) The amount of coverage should be at least equal to the lesser of the insurable value of the building (including all common elements and property) or the maximum coverage available under the applicable National Flood Insurance Program. Note, however, that the 80% coinsurance clause may apply unless the buildings, elements, and property are insured for at least 80% of their replacement cost.)

Although we require that properties within Special Flood Hazard Areas have adequate flood insurance when the mortgage is originated and that the coverage be maintained as long as the mortgage is in force, we do not specify how lenders accomplish this. There is in the marketplace a type of service called "life-of-loan" coverage or "life-of-loan" monitoring. However, "life-of-loan" is largely a vendor-initiated term that has both broad meaning and inconsistent usage throughout the industry. It does not mean that the monitoring company guarantees that the properties being monitored have flood insurance policies in effect, rather it only means that it will notify the lender if flood insurance is required for a monitored property. A lender is not precluded from selecting a "life-of-loan" monitoring service; however, if a lender selects this type of monitoring, it should assure itself that it has a clear understanding of whether this arrangement will satisfy its on-going compliance obligations.

Identification of Flood Zone/Insurance Status for Mortgage Deliveries

In order to assist lenders in identifying mortgages that they need to track to assure that they are complying with the provisions of the Flood Act -- and to enable us to better monitor lenders' compliance-- we are implementing a new requirement for lenders to identify mortgage deliveries by coding them with a unique Special Feature Code. The Special Feature Code will indicate not only whether the principal structure is in a Special Flood Hazard Area, but also whether the property improvements are covered by flood insurance. Effective with mortgages delivered on or after September 1, 1995, lenders must provide the applicable Special Feature Code to identify

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the flood zone and insurance status for every mortgage they deliver to us. Mortgages delivered on or after September 1, 1995, will be returned to the lender (and not purchased) if they do not include a Special Feature Code identifying whether they are located in a Special Flood Hazard Area and indicating the status of their flood insurance coverage.

The following Special Feature Codes should be reported, as appropriate, on the Loan Schedule (Form 1068 or 1069) or the Schedule or Mortgages (Form 2005) -- or in an electronic version of these forms:

- Use Special Feature Code 170 to indicate that the principal structure is located in a Special Flood Hazard Area and is covered by flood insurance;
- Use Special Feature Code 175 to indicate that the principal structure is not located in a Special Flood Hazard Area, but is covered by flood insurance; and
- Use Special Feature Code 180 to indicate that the principal structure is not located in a Special Flood Hazard Area, and is not covered by flood insurance.

Note: A Special Feature Code has not been provided to indicate that the principal structure is located in a Special Flood Hazard Area, but is not covered by flood insurance since such properties are not eligible for delivery to us.

Use of Flood Zone Determination Firms

Lenders may choose to make flood zone determinations themselves or to rely on flood zone determinations that are made by appraisers or third party firms. The Flood Act recognizes that the use of third party firms to perform flood zone determinations and related activities can be a critical component in the mortgage lending process; however, it does place additional burdens on these firms by requiring them to guarantee the accuracy of any determination they make. Because we expect lenders that use outside vendors to exercise care and sound judgment when they select and contract with third-party flood zone determination firms, we are offering the following guidance related to the selection of these firms:

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- A lender should select a company that appears on the list of flood zone determination vendors that FEMA makes available. (Lenders should note, however, that the presence of a company on this list does not mean that use of the company has been "approved" or "sanctioned" by FEMA.)
- A lender should become familiar with the various methods that flood zone determination companies use in making flood zone determinations. Firms that not only use the FEMA maps, but also map directly to the property -- by using alternative sources (such as tax maps) as cross references, or using site inspections and surveys when they are needed -- are the most reliable. The use of "probability" or other approximation techniques is not adequate; therefore, lenders should not use the services of firms that rely solely on these methods.
- A lender should ask for, and review, the financial statements of any flood zone determination firm it is considering using to verify that the firm has the financial capacity to support the guarantee of the accuracy of its work that is required under the Flood Act.
- A lender that is considering a "life-of-loan" monitoring service should request the flood zone determination company it selects to agree to continue monitoring for all of the covered properties in the event that the servicing of mortgages secured by the covered properties is transferred to a new servicer.
- A lender should make sure that any contract it enters into with a flood zone determination firm includes clear procedures for resolving disputes related to difficult determinations, sets out the firm's responsibility for guaranteeing its compliance with the Flood Act, and addresses which party will be responsible for any penalty incurred for non-compliance with the Flood Act.

Flood Insurance Requirements Related to Mortgage Servicing

A servicer's obligation to maintain flood insurance coverage for all properties in Special Flood Hazard Areas extends beyond the

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requirement to obtain flood insurance in connection with the origination of mortgages to take into account a requirement to obtain coverage in connection with any remapping of flood zones that may subsequently occur. Previously, we required servicers to obtain flood insurance for remapped properties only if they became aware of such remappings during the normal course of business. We will now require servicers to actively monitor all map and community status changes and to take appropriate actions when changes occur. We do not expect servicers to review their entire portfolio for each map change, rather they may review only the portion of their portfolio that is affected by a specific remapping. Servicers may choose to monitor remappings themselves or to use a flood zone determination company to perform the monitoring.

- Servicers that wish to review map changes themselves may access any of the following to obtain remapping information: (1) Federal Emergency Management Agency flood maps, (2) the Federal Register, or (3) the Federal Emergency Management Agency's compendium of map changes.
- Servicers that use a flood zone determination company to monitor flood zone remappings for mortgages in their portfolio do not need to specifically monitor flood zone remappings themselves since that is a function of the monitoring service.

When a servicer determines that a property has been remapped into a Special Flood Hazard Area and the community in which the property is located is "participating" in the National Flood Insurance Program, the servicer must work with the borrower to obtain the required flood insurance. Servicers should encourage borrowers to obtain coverage as quickly as possible -- the flood insurance policy should be in place within 120 days after the effective date of the remapping. If a borrower refuses to obtain the required coverage or to pay a disputed premium, we still expect the servicer to obtain the required coverage, as part of its responsibility for "protecting our interest in the security." The servicer should make every effort to collect the applicable premium from the borrower, but, if it is unable to do so, we will reimburse the servicer for the cost of the flood insurance policy. We will then advise the servicer about whether any of the remedies permitted under the mortgage should be pursued against the borrower.

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If the community in which a remapped property is located is a "non-participating" community under the National Flood Insurance Program, the servicer should assist the borrower in locating a private insurance carrier that can underwrite an acceptable flood insurance policy. If acceptable insurance coverage cannot be obtained, the servicer must contact its Lender Administration Representative in its lead Fannie Mae regional office to determine the course of action we want taken. At a minimum, we will require the servicer to periodically try to obtain adequate coverage from an acceptable carrier.

Servicers must make sure that the properties securing the mortgages they service for us are adequately protected by flood insurance when it is required, with no lapses in coverage for any reason. Because the maximum level of coverage available under the National Flood Insurance Program has been increased to \$250,000, servicers of mortgages that we have already purchased or securitized should review the coverage for the mortgages in their Fannie Mae portfolio to determine whether additional coverage needs to be obtained for mortgages that are "underinsured" as the result of the coverage amount having been "capped" by the previous maximum limitations.

It is important for servicers that acquire Fannie Mae servicing portfolios through transfers of servicing to have in place appropriate procedures for (1) performing due diligence with respect to flood insurance coverage (including determining whether any previously arranged "life-of-loan" monitoring arrangement remains in force) and the monitoring of changes in flood maps and community designations, and (2) recording the appropriate vendor and product information in their servicing and accounting systems.

Monitoring Flood Insurance Compliance

We are revising our procedures for monitoring our lenders' compliance with the requirements of the Flood Act and our specific policies. Our compliance reviews will consist of three components. First, when we conduct an on-site review of a lender's mortgage underwriting and quality control practices, we will review the lender's procedures for making initial determinations of whether or not properties are located in Special Flood Hazard Areas (and, if they are, for obtaining the required flood insurance). Second, when we conduct on-site reviews of a servicer's mortgage servicing practices, we will verify whether procedures are in place for assuring that any required

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flood insurance coverage remains in force as long as it is required and for monitoring remappings of flood zones. Third, we will perform a periodic sampling of mortgages from a lender's servicing portfolio to determine whether or not any required flood insurance coverage was obtained and is still in effect.

Lenders may contact either their Account Executive or Lender Administration Representative in their lead Fannie Mae regional office if they have any questions about the policy or procedural changes brought about by the Flood Act.

Robert J. Engelstad
Senior Vice President -
Mortgage and Lender Standards

Bulletin

NUMBER: 94-18

**Freddie
Mac**

TO: All Freddie Mac Sellers and Servicers

December 18, 1994

SUBJECT

This bulletin revises Freddie Mac's flood insurance requirements for 1-4 unit dwellings in Special Flood Hazard Areas (SFHAs) in support of the National Flood Insurance Reform Act of 1994. This bulletin alerts you to recent initiatives of the Federal Insurance Administration (FIA) and provides guidance that should help you implement the revised requirements. This bulletin also advises you of the loan-level audits Freddie Mac is conducting to verify compliance with our flood insurance requirements.

EFFECTIVE DATE

Beginning December 8, 1994, you must require Borrowers whose Mortgages have been sold to or serviced for Freddie Mac to obtain flood insurance when postorigination changes in the flood maps place their dwellings "in SFHA." Also beginning immediately, you must include flood insurance documentation in the Mortgage files you send to Freddie Mac for review.

On or after March 1, 1995, you must report the flood insurance status of the Mortgages you sell to Freddie Mac on the delivery forms.

For flood zone determinations (FZDs) made by a third party on or after June 1, 1995, you must ensure that the third party guarantees the accuracy of its determination.

At your option, you may implement any of these changes before its effective date.

HOW THESE CHANGES AFFECT YOU

Determining When Flood Insurance Is Required

The SFHA status of the dwelling will determine whether flood insurance must be in force for Mortgages sold to or serviced for Freddie Mac. So we have revised our requirements as follows:

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Effective immediately for Mortgages serviced for Freddie Mac or originated for sale to Freddie Mac, you must require the Borrower to obtain flood insurance in accordance with federal law when a postorigination change in a Federal Emergency Management Agency (FEMA) flood map results in the dwelling's SFHA status changing from "out of SFHA" to "in SFHA."

- For Mortgages sold to Freddie Mac, flood insurance must be obtained for any dwelling which, as of the Funding Date is "in SFHA." The term "Funding Date" is defined in the Glossary Section of the *Single-Family Seller/Servicer Guide* (the Guide).
- For Mortgages serviced for Freddie Mac, flood insurance must be obtained for any dwelling determined to be "in SFHA" as a result of a FEMA remapping occurring after the Funding Date.

If the Borrower fails to supply evidence of flood insurance when required, you must purchase the insurance on behalf of the Borrower and charge the Borrower for the insurance.

Previously, you were required to take action upon a postorigination remapping by FEMA only if you were aware of the remapping. The revised requirement obligates you to monitor FEMA remappings and respond to each remapping if it affects any dwellings securing Mortgages that you service for us or originate for sale to us.

There are three sources you can access for FEMA remapping information:

- FEMA flood maps
- The Federal Register
- FEMA's compendium of map changes (to be available in the future, as required by federal law)

In addition, some FZD companies provide "life-of-loan" coverage for a one-time fee at loan origination. This coverage reportedly ensures that the Mortgage servicer is kept informed of all SFHA status changes affecting the covered dwelling for the term of the Mortgage. If you decide to obtain this type of coverage, we suggest you ensure that the coverage is viable and portable in a servicing transfer situation. Even if you obtain this coverage, you remain responsible to Freddie Mac for monitoring the SFHA status of the dwellings securing Mortgages serviced for us or originated for sale to us.

To get you started, we have attached, as Exhibit D, a FEMA list of communities remapped into SFHAs from October 1993 through September 1994. You should remember, however, that the flood zone determination must be made dwelling by dwelling; you should not conclude that a dwelling is "in SFHA" or "out of SFHA" solely on the basis of the community's name or the Mortgaged Premises' zip code.

Freddie Mac's communication of information on FEMA-remapped communities does not obligate us to keep you informed of SFHA designations, and the absence of such communication does not relieve you of the responsibility for due diligence in the normal course of your loan origination and servicing operations.

Submitting Mortgage Files for Freddie Mac's Quality Control

Effective immediately, you must provide documentation of the FZD performed and, where applicable, evidence of flood insurance with each Mortgage file we request for postfunding quality control review.

Revised Guide Section 44.9(c) (see Exhibit A) specifies acceptable FZD documentation.

Section 58.7 of the Guide specifies the documents that constitute final evidence of insurance to be retained in the Mortgage file. Until final evidence of insurance is available, alternative documentation specified in new Guide Section 46.21 (see Exhibit A) will be acceptable.

Delivering Mortgages to Freddie Mac

Effective for Mortgages delivered to Freddie Mac on or after March 1, 1995, you must identify the SFHA and flood insurance status of each Mortgage by Special Characteristics Codes (SCCs). These new flood insurance SCCs must be reported on Form 11, Mortgage Submission Schedule, or Form 13SF, Mortgage Submission Voucher, as required in the Guide. Both of these forms have been revised to reflect the inclusion of these new SCCs. The revisions are set forth in Exhibit B.

Mortgages delivered on or after March 1, 1995, without SFHA and flood insurance SCCs will not be eligible for purchase by Freddie Mac.

Determining Whether Dwellings Are Located in SFHAs

We have revised the Guide to accommodate FZDs that are not made by an appraiser. You must ensure that any FZD made on or after June 1, 1995, by a third-party FZD maker (a fee appraiser, a surveyor or a specialized FZD company) is guaranteed by the FZD maker for its accuracy. Ultimately, however, you are responsible to Freddie Mac for the accuracy of an FZD. If you contract with a third-party FZD maker, it is essential that you exercise due care in your selection, paying special attention to the maker's accuracy record and the adequacy of its financial guarantees. Exhibit C suggests areas for you to consider when selecting a third-party FZD contractor.

Obtaining More Information

The FIA, through the National Flood Insurance Program (NFIP), is conducting workshops for Mortgage originators and servicers and is making lender publications and consumer information kits available free of charge upon request.

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Since the lack of flood insurance in the face of renewed flooding represents great risks to our Mortgage investments, we strongly encourage you to attend the NFIP workshops and obtain the materials. You can then disseminate the consumer information as a service to your Mortgage customers and your community.

To obtain information on the workshops or to order publications and information kits, please contact the NFIP at (800) 638-6620.

Preparing for Freddie Mac Flood Insurance Audits

During our on-site servicing audits, we have begun to conduct loan-level reviews of your compliance with our flood insurance requirements. These requirements are set forth in Chapter 58 of the Guide. The review process involves Freddie Mac ordering preaudit independent FZDs of dwellings in your Freddie Mac servicing portfolio and verifying, on-site, the flood insurance coverage of dwellings we have determined to be "in SFHA."

CHANGES TO THE SINGLE-FAMILY SELLER/SERVICER GUIDE

Exhibit A contains revisions to Guide chapters 44, 46, 47, 56 and 58. Exhibit B contains revisions to Forms 11 and 13SF.

BACKGROUND

Public Law 103-325, the National Flood Insurance Reform Act of 1994, imposes new requirements on Freddie Mac and other financial institutions. The purpose of this law is to increase the number of dwellings covered by flood insurance and ensure compliance with the law by Mortgage originators and servicers. We urge you to become familiar with this important new law.

CONCLUSION

Together, we can help alleviate the hardship inflicted upon Borrowers by uninsured flood losses and, at the same time, reduce our exposure to this risk. If you have questions regarding our flood insurance requirements, please call (800) FREDDIE (option 2).

Cordially,

Michael K. Stamper
Executive Vice President
Risk Management

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Seller/Servicer Guide Bulletin

Exhibit A

Revisions to the Freddie Mac *Single-Family Seller/Service Guide*
Re: Revised Flood Insurance Requirements
(Effective Immediately)

The last bullet point of Section 44.9(c) has been revised as follows:

**44.9
Property
description and
analysis on the
appraisal report**

- **Flood hazard:** The appraisal report must indicate whether the dwelling on the subject property lies within a “Special Flood Hazard Area” (SFHA) as identified by the Federal Emergency Management Agency (FEMA) through the National Flood Insurance Program (NFIP). The flood zone, flood map number and map date must also be stated. (See Section 58.3 for flood insurance requirements.)

The appraiser need not complete this section if the flood zone is determined by another party, such as a nonappraiser on the staff of the Seller, a surveyor or a specialized flood zone determination company. If the flood zone determination is not made by an appraiser, the resulting flood zone documentation must contain at least the flood hazard information required in the appraisal report and must be attached to the appraisal report. The Seller warrants that any flood zone determination made on or after June 1, 1995, by a party other than the Seller is guaranteed by the flood zone determination maker to be accurate, in accordance with federal law. The Seller, however, remains responsible to Freddie Mac for the accuracy of any flood zone determination made by the Seller or a party other than the Seller.

**46.1
Postfunding
quality control**

The fourth paragraph of Section 46.1 has been revised as follows:

Freddie Mac [3-6, 8]* must receive the requested Mortgage files within 15 Business Days from the date of the letter requesting the Mortgage files. The file for each Mortgage selected for quality control review must contain legible photocopies of the applicable documents listed in Sections 46.2-46.21 and any other documentation requested by Freddie Mac, with one exception. The photographs attached to the copy of the appraisal report must be originals. All documents must be secured to the top right side of a legal-sized manila folder and arranged in the order of documents specified in Sections 46.2-46.22, with the first item on top.

*See the directory in your *Single-Family Seller/Servicer Guide* for address.

Chapter 46 is revised to reflect the addition of two new Sections 46.20 and 46.21, changing present Section 46.20 to 46.22. The complete text of these sections is as follows:

**46.20
Documentation
of flood zone
determination**

If the flood zone determination is not made by an appraiser, the determination must be documented as required in Section 44.9(c).

**46.21
Evidence of flood
insurance**

Final evidence of flood insurance must meet the requirements of Section 58.7.

If final evidence of flood insurance is not available at the time of the quality control review, one of the following documents is acceptable:

- Completed and executed NFIP Flood Insurance Application PLUS a copy of the borrower's premium check or agent's paid receipt

OR

**46.21
Evidence of flood
insurance
(continued)**

- Completed and executed NFIP Flood Insurance Application PLUS the final HUD-1 reflecting the flood insurance premium collected at closing

OR

- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the Borrower

OR

- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

If the flood insurer is not the NFIP, the insurer's equivalent of the applicable NFIP form is acceptable.

If the appraisal report or flood zone determination documentation shows the dwelling is in SFHA but flood insurance was waived, the Mortgage file must include the documentation which served as the basis for the waiver, specifically, a FEMA Letter of Map Amendment (LOMA) or a FEMA Letter of Map Revision (LOMR).

**46.22
Other
documentation**

The Seller agrees to maintain and submit all other documents Freddie Mac requests. All submitted documents must be legible. Freddie Mac may require that the requested documents be delivered to Freddie Mac or to a third-party Custodian.

Section 47.6 is revised as follows:

**47.6
Property
insurance policies**

The file must contain property insurance policies, properly endorsed, or suitable evidence of insurance as described in Section 58.7, unless the Seller or Servicer carries Mortgage impairment insurance instead of maintaining possession of property insurance policies.

**56.14
Notices to third
parties**

The second bullet Point of Section 56.14 is revised as follows:

-
- Advise all applicable property insurers including, if applicable, FEMA, of the transfer and of the name and address of the Transferee to modify the Mortgage clause required by Section 58.6
-

The first paragraph of Section 58.9 is revised as follows:

**58.9
Special insurance
requirements and
changes in
insurance
requirements**

The Seller/Servicer must require the Borrower to obtain appropriate insurance coverage in accordance with the terms of the Security Instrument and applicable law when any of the following conditions exists:

The second bullet point of Section 58.9 is revised as follows:

-
- The area where the Mortgaged Premises are located was not subject to flood insurance requirements at inception of the Mortgage or when Freddie Mac purchased the Mortgage, but has now been classified as an SFHA and the dwelling on the Mortgaged Premises is determined to be in the new SFHA. If the new flood zone determination is not made by an appraiser, the determination must be documented as required in Section 44.9(c). The Servicer warrants that any flood zone determination made on or after June 1, 1995, by a party other than the Servicer is guaranteed by the flood zone determination maker to be accurate, in accordance with federal law. The Servicer, however, remains responsible to Freddie Mac for the accuracy of any flood zone determination made by the Servicer or a party other than the Servicer.
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Exhibit B

Revisions to the Freddie Mac *Single-Family Seller/Servicer Guide*
Re: Revised Flood Insurance Requirements
(Effective March 1, 1995)

Revised Form 11

Form 11

Four new Special Characteristics Codes are added to the list on page F11-5, as follows:

170 = in SFHA with flood insurance
185 = in SFHA without flood insurance
175 = out of SFHA with flood insurance
180 = out of SFHA without flood insurance

One additional paragraph has been added to the end of this section on page F11-5. The language of the new last paragraph is as follows:

Mortgages delivered on or after March 1, 1995, without SFHA and flood insurance Special Characteristics Codes (SCCs) will not be eligible for purchase by Freddie Mac.

Revised Form 13SF

Form 13SF

Four new Special Characteristics Codes are added to the list on page F13SF-5, as follows:

170 = in SFHA with flood insurance
185 = in SFHA without flood insurance
175 = out of SFHA with flood insurance
180 = out of SFHA without flood insurance

Form 13SF
(continued)

One additional paragraph has been added to the end of this section on page F13SF-6. The language of the new last paragraph is as follows:

Mortgages delivered on or after March 1, 1995, without SFHA and flood insurance Special Characteristics Codes (SCCs) will not be eligible for purchase by Freddie Mac.

Exhibit C

SUGGESTED AREAS FOR REVIEW IN SELECTING A FLOOD ZONE DETERMINATION PROVIDER

- 1** How long has the provider been in the business of making flood zone determinations (FZDs)?
- 2** In what areas of the country does the provider make FZDs?
- 3** What map sources are used for FZDs? How are these sources used? How are these sources kept current?
- 4** What techniques and processes are used for FZDs? Does the FZD read to the property boundary line or to the dwelling on the property? What techniques and processes are used for contested FZDs?
- 5** What quality control procedures does the FZD provider rely upon?
- 6** What property data are required for an FZD? What media are available for you to provide the data and to receive the FZD report? What is the typical turnaround time for an FZD? What is the typical turnaround time for a redetermination?
- 7** What training is provided to the FZD staff?
- 8** What level of pre- and post-FZD customer service support is available to the FZD client?
- 9** Is life-of-loan coverage available? If so,
 - Does it cover changes that do not result in new map panels, such as those changes made by LOMAs or LOMRs?
 - How and how often are changes communicated?
 - How are servicing transfers handled?
 - How are the legal and service liabilities funded?
- 10** What disaster recovery systems and processes are in place to ensure integrity and continuity of the FZD operations?
- 11** Is there an indemnification backing the guarantee of accuracy of an FZD? If so,
 - Does it provide for, at a minimum, refunding all paid flood insurance premiums for inaccurately placing a dwelling "in SFHA?"
 - Does it provide for compensation for incurred damages at least equal to compensation claimable under a flood insurance policy for inaccurately placing a dwelling "out of SFHA?"

Other considerations should include

- The financial strength of the guarantor and any insurer
- The insurer's rating by A.M. Best, Standard & Poor's, Moody's or a comparable rating company
- The insurance limits of liability
- The scope of coverage of the insurance policy
- Claim settlement procedures (including turnaround time) and claim experience
- Error rates
- References from other Mortgage industry clients
- Whether financial statements and internal controls are audited by an Independent Public Accountant
- Whether the provider is or has been subject to litigation or regulatory action over FZD accuracy

12 What is the provider's FZD fee structure?

Bulletin

NUMBER: 95-3

**Freddie
Mac**

TO: All Freddie Mac Sellers and Servicers

March 13, 1995

SUBJECT

This bulletin modifies our flood insurance requirements for 1-4 unit dwellings announced in Bulletin 94-18, dated December 8, 1994, to clarify the Servicers' role when Federal Emergency Management Agency (FEMA) map changes occur after a Mortgage has been originated.

This bulletin also advises you of actions you must take as a result of the National Flood Insurance Program (NFIP) increasing the maximum amount of insurance sold for 1-unit dwellings from \$185,000 to \$250,000.

EFFECTIVE DATES

Map Changes

For any FEMA postorigination map change with an effective date

- **From October 15, 1993, to September 30, 1994,** you have until April 8, 1995, to have flood insurance in force on any dwelling determined to be in a Special Flood Hazard Area (SFHA)
- **From October 4, 1994, to March 23, 1995, you** have until July 13, 1995, to have flood insurance in force on any dwelling determined to be "in SFHA"
- **On or after April 1, 1995,** you have 120 days from the effective date of the map change to have flood insurance in force on any dwelling determined to be "in SFHA"

Flood Insurance Cap

Flood insurance policies obtained on or after March 1, 1995, must provide coverage at least equal to the coverage required under Section 58.3(a) of the Freddie Mac *Single-Family Seller/Servicer Guide* (the Guide), subject to the new cap of \$250,000.

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Flood insurance policies obtained before March 1, 1995, are subject to the new \$250,000 cap and coverage must be adjusted, if necessary, by the later of

- May 31, 1995, or
- The first renewal date (or first anniversary date if a three-year policy) after March 1, 1995

Examples of renewal dates and coverage adjustment dates for affected flood insurance policies are as follows:

Renewal Date	Coverage Adjustment Date
9/1/94	9/1/95
10/1/94	10/1/95
11/1/94	11/1/95
12/1/94	12/1/95
1/1/95	1/1/96
2/1/95	2/1/96
3/1/95	5/31/95
4/1/95	5/31/95
5/1/95	5/31/95
6/1/95	6/1/95

WHY WE'RE MAKING THESE CHANGES

Many of you have asked us to define your responsibility for acting on FEMA map changes. Therefore, we are modifying the requirements of Bulletin 94-18 to clarify your responsibility and reduce your costs. Under Bulletin 94-18, you were required to review your portfolio for all map changes; now you must do so only for map changes with effective dates on or after October 15, 1993.

We are also responding to your request for guidance in implementing the higher NFIP cap. The NFIP raised its flood insurance coverage limit for 1-unit dwellings, as of March 1, 1995, in accordance with the National Flood Insurance Reform Act of 1994. We have revised our flood insurance requirements to comply with this new cap.

HOW THESE CHANGES AFFECT YOU

Responding to Map Changes

Sacramento map changes. Freddie Mac notified all Servicers on May 18, 1990, of map changes affecting the city of Sacramento, CA. You are already responsible for ensuring that dwellings "in SFHAs" have flood insurance as a result of the Sacramento map change.

Map changes before October 15, 1993. For FEMA map changes with an effective date before October 15, 1993, you must require a Borrower to obtain flood insurance if you are aware that a dwelling has been classified as "in SFHA" (see Section 58.9 of the Guide in effect prior to Bulletin 94-18).

Map changes from October 15, 1993 to March 31, 1995. In Bulletin 94-18 we published a list of flood map changes with effective dates between October 15, 1993, and September 30, 1994. We have made you aware of those map changes, and you have until April 8, 1995, to have flood insurance in place for any dwelling determined to be "in SFHA."

We have attached, as Exhibit B, a FEMA list of communities with map changes effective from October 4, 1994, through March 23, 1995. (If any changes occur between March 23, 1995, and April 1, 1995, we will advise you of them as well.) You will have until July 13, 1995, to ensure that dwellings that are "in SFHA" as a result of the changes in Exhibit B are covered by flood insurance.

Map changes on or after April 1, 1995. For any Mortgages you service for Freddie Mac, you must ensure that flood insurance is in force for any dwellings which are "in SFHA" on or after April 1, 1995. This insurance must be in force within 120 days of the effective date of any map change by FEMA.

This requirement means that you must have processes in place that will allow you to

- Identify all map changes
- Determine which dwellings on Mortgaged Premises in the affected communities are now "in SFHA," and
- Ensure that affected Borrowers obtain flood insurance

Responding to the New Flood Insurance Cap

The \$250,000 NFIP cap means that some of the 1-unit dwellings insured for \$185,000 under flood insurance policies obtained before March 1, 1995, may now be underinsured. Those dwellings must have their coverage increased so that coverage continues to be at least equal to the unpaid principal balance of the Mortgage or 80 percent of the insured dwelling's replacement cost, whichever is higher, in accordance with Guide Section 58.3(a).

The NFIP cap for 2-4 unit dwellings remains unchanged at \$250,000.

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You need to monitor and follow up on flood insurance renewal notices to ensure that affected Borrowers update their coverage. The Borrowers' insurance agents should be advising Borrowers and their Mortgage servicers of the higher NFIP cap, and may identify those dwellings that are underinsured.

The NFIP will pay for any flood loss sustained on a 1-unit dwelling insured under a pre- March 1, 1995, policy by applying the replacement cost provision as follows:

- Based on the NFIP cap of \$185,000 for any flood loss that occurs between March 1, 1995, and May 31, 1995
- Based on the NFIP cap of \$250,000 for any flood loss that occurs on or after June 1, 1995

Complying With Other Freddie Mac Flood Insurance Requirements

Other requirements announced in Bulletin 94-18 are not affected by this bulletin.

Complying With Applicable Laws, Regulations and Requirements

In addition to Freddie Mac's requirements, you must comply with all applicable laws, regulations and FHA/VA requirements related to flood insurance.

REVISIONS TO THE *SINGLE-FAMILY SELLER/SERVICER GUIDE*

Exhibit A revises Guide Section 58.9 to clarify your responsibility for responding to map changes. These revisions, which supersede the changes announced in Bulletin 94-18 to Section 58.9, will be incorporated into a future Guide update.

Because Section 58.3(a) of the Guide already caps our flood insurance requirement at "the maximum amount of insurance currently sold under the NFIP for the type of improvements insured," no Guide change is necessary.

CONCLUSION

The goal of our flood insurance policy is to minimize losses for homeowners, Seller/Servicers and Freddie Mac. We believe that our requirements, as modified by this bulletin, represent a reasonable approach to managing the risk associated with uninsured flood losses. As nature recently showed us in California, these risks are very real. Many of the flooded California communities were included in the map changes we identified in Bulletin 94-18.

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If you have questions regarding our flood insurance requirements, please call (800) FREDDIE (option 2).

Cordially,

Michael K. Stamper
Executive Vice President
Risk Management

Exhibit A

Revisions to the Freddie Mac *Single-Family Seller/Servicer Guide*
Re: Revised Flood Insurance Requirements
(Effective March 13, 1995)

**58.9
Special
insurance
requirements
and changes in
insurance
requirements**

The second bullet point of Section 58.9 (as revised by Bulletin 94-18, dated December 8, 1994) has been revised as follows:

The area where the Mortgaged Premises are located was not subject to flood insurance requirements at origination of the Mortgage, or when Freddie Mac purchased the Mortgage, but has now been classified as an SFHA by a FEMA map change, the Servicer is aware of such classification and the Servicer has determined that the dwelling on the Mortgaged Premises is in the new SFHA. Flood insurance required under these provisions must be in force within 120 days of the effective date of the map change or the related Freddie Mac announcement.

The Servicer must have processes in place that allow the Servicer to identify any map change that becomes effective on or after April 1, 1995, determine which dwellings on Mortgaged Premises in the community affected by the map change are now “in SFHA” and ensure that affected borrowers obtain flood insurance within 120 days of the effective date of the map change.

Any new flood zone determination necessitated by the above provisions that is not made by an appraiser must be documented as required in Section 44.9(c). The Servicer warrants that any flood zone determination made on or after June 1, 1995, by a party other than the Servicer is guaranteed by the flood zone determination maker to be accurate, in accordance with federal law. The Servicer, however, remains responsible to Freddie Mac for the accuracy of any flood zone determination made by the Servicer or a party other than the Servicer.
